

CITY OF HAMTRAMCK, MICHIGAN

**FINANCIAL REPORT
WITH
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Cathy Square, Emergency Financial Manager
And to the Honorable Mayor and City Council
City of Hamtramck, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hamtramck, Michigan (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying financial statements have been prepared assuming that the City continues as a going concern. As discussed in Notes 2 and 9 to the financial statements, although the City has a \$1.1 million general fund balance, 2013 expenditures did not include \$2.3 million of pension expenditures that were unpaid, although they were a part of the actuarially required contribution. Without this nonpayment, the general fund would have a deficit of \$1.2 million, as compared to a \$0.6 million deficit at June 30, 2012, this raises substantial doubt about the ability of the City to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Independent Auditors' Report
(Continued)

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information; the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements

The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Requirements by Government Auditing Standards

In accordance with Government Auditing Standards, we will also be issuing a report on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with government Auditing Standards in considering City's internal control over financial reporting and compliance.



Detroit, MI

December 26, 2013

Our discussion and analysis of the City of Hamtramck, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2013:

- The net expense (or net cost) of providing governmental services exceeded the amount of resources received from general revenues by \$1.2 million. This is an improvement from prior years (\$2.4 million shortfall in 2011, and \$1.9 million shortfall in 2012).
- The General Fund also continued to experience a structural deficit. The General Fund was unable to pay its required pension contribution of \$2.3 million. Because of the modified accrual basis of accounting, this amount was not recorded as an expenditure of the General Fund; if it had, the General Fund would have reported a shortfall of \$600,000, the 4th straight year of a shortfall (expenditures in excess of revenues). Because the missed pension payments are not counted as expenditures, the fund balance did increase from a prior year deficit of \$582,000 at June 30, 2012 to a surplus of \$1.1 million at June 30, 2013.
- Because of the City's fiscal distress, the Governor appointed an emergency manager as of July 1, 2013. As discussed below, we anticipate that this will have a significant impact on future financial condition.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Governmental Activities

The following table shows, in a condensed format, the current year's net position compared to the prior two years (in thousands of dollars):

	Governmental Activities				
	2011	2012	2013	Change 2013-2012	Percent
Assets:					
Cash and Investments	\$ 5,209	\$ 4,848	\$ 5,248	\$ 401	8%
Receivables & Prepaids	3,355	1,793	2,354	561	31%
Capital Assets	<u>8,162</u>	<u>8,447</u>	<u>8,393</u>	<u>(54)</u>	<u>-1%</u>
Total Assets	<u>16,726</u>	<u>15,087</u>	<u>15,995</u>	<u>908</u>	<u>6%</u>
Liabilities:					
Accounts Payable	613	785	638	(147)	-19%
Accrued & Other Liabilities	966	1,436	2,960	1,524	106%
Deferred Revenue	346	402	342	(59)	-15%
Compensated Absences	1,974	1,858	1,897	38	2%
Net OPEB Obligation	386	823	2,213	1,391	169%
Bonds Payable	2,793	2,168	1,553	(615)	-28%
Other Noncurrent Liabilities	<u>678</u>	<u>516</u>	<u>543</u>	<u>27</u>	<u>5%</u>
Total Liabilities	<u>7,757</u>	<u>7,986</u>	<u>10,146</u>	<u>2,160</u>	<u>27%</u>
Net Position:					
Net Investment in Capital					
Assets	7,477	8,107	8,393	286	4%
Restricted	3,856	4,651	4,768	116	3%
Unrestricted	<u>(2,365)</u>	<u>(5,657)</u>	<u>(7,311)</u>	<u>(1,654)</u>	<u>29%</u>
Total Net Position	<u>\$ 8,968</u>	<u>\$ 7,101</u>	<u>\$ 5,849</u>	<u>\$ (1,252)</u>	<u>-18%</u>

Total net position continues to decline; this indicates that the net expense (or net cost) of providing governmental services exceeds the amount of resources received from general revenues. The Unrestricted portion of net position deteriorated the most. This is driven primarily by the fact that the City is not generating sufficient revenue to fund the net pension obligation or the net OPEB obligation (retiree health care). The pension obligation is required to be funded by State law; 2013 is the first year that the City has been unable to fund the actuarially required contribution. The OPEB obligation is not required to be funded as it is earned by the employees, and has historically been funded on a "pay as you go" basis.

The City continues to manage its debt: during 2013 the 2004 Series A bonds matured, and are now paid off; the City also refunded its 2002 fiscal stabilization bonds through the issuance of the 2012 B Local Government Loan Program revenue bonds, resulting in a lower interest rate.

City of Hamtramck, Michigan

Management's Discussion and Analysis (Continued)

The following table shows, in a condensed format, the changes in net position, compared to the prior two years (in thousands of dollars):

	Governmental Activities				
	2011	2012	2013	Change 2013-2012	Percent
Revenue					
Program Revenue:					
Charges for Services	\$ 2,931	\$ 1,351	\$ 1,045	\$ (306)	-23%
Operating Grants	3,040	11,459	9,931	(1,528)	-13%
General Revenue:					
Property Taxes	6,209	7,010	6,627	(384)	-5%
Income Taxes	1,842	2,034	2,015	(19)	-1%
State Aid - Unrestricted	3,272	3,231	3,306	75	2%
Investment Earnings	23	5	0	(5)	-100%
Other Revenue	324	692	813	121	18%
Total revenue	17,640	25,782	23,737	(2,045)	-8%
Program Expenses					
General Government	4,178	3,397	3,496	99	3%
Public Safety	12,273	12,431	12,849	419	3%
Public Works	1,834	2,556	2,393	(164)	-6%
Community and Economic Development	996	8,543	5,409	(3,133)	-37%
Recreation and Cultural	657	611	742	130	21%
Interest on Long-term Debt	128	111	99	(12)	-11%
Total Expenses	20,065	27,649	24,988	(2,661)	-10%
Change in Net Position	\$ (2,425)	\$ (1,867)	\$ (1,251)	\$ 616	-33%

The City's largest revenue source is Operating grants, driven primarily by a grant from the U.S. department of Housing and Urban Development (NSP2) that was received beginning in 2012 (\$7.4 million in 2012 and \$5.1 million in 2013). The grant is intended to help alleviate blighted properties in the City; the related expenses are included in the Community and economic development expenses category.

The second largest revenue source is property taxes. The taxable value of the City began declining in 2008; as a result, the City Council raised the general operating millage rate in 2012 (the July 1, 2011 tax billing) from 17.0403 mills to 19.2403 mills. The revenue continued its decline in 2013, however, as taxable values continued to decline.

As can be seen above, the cost of providing governmental services has exceeded the resources available for each of the last three years. The City continues to work hard to contain costs to bring them in line with the available resources.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund. We provide water and sewage treatment to residents through a contractual arrangement with the Detroit Water and Sewer Department. The following table shows, in a condensed format, the current year's net position compared to the prior two years (in thousands of dollars):

Business Type Activities					
	2011	2012	2013	Change 2013-2012	Percent
Assets:					
Cash and Investments	\$ 509	\$ 785	\$ 1,399	\$ 614	78%
Receivables	3,437	2,999	2,750	(249)	-8%
Capital Assets	<u>2,874</u>	<u>2,703</u>	<u>2,543</u>	<u>(159)</u>	<u>6%</u>
Total Assets	6,820	6,486	6,692	206	3%
Liabilities:					
Accounts Payable	876	891	885	(6)	-1%
Accrued & Other Liabilities	12	14	177	163	1164%
Compensated Absences	41	42	33	(9)	-21%
Net OPEB Obligation	<u>16</u>	<u>30</u>	<u>76</u>	<u>47</u>	<u>157%</u>
Liabilities:	<u>945</u>	<u>977</u>	<u>1,171</u>	<u>194</u>	<u>20%</u>
Net Position:					
Net Investment in Capital Assets	2,874	2,703	2,543	(159)	-6%
Unrestricted	<u>3,001</u>	<u>2,806</u>	<u>2,978</u>	<u>172</u>	<u>8%</u>
Total Net Position	<u>\$ 5,875</u>	<u>\$ 5,508</u>	<u>\$ 5,521</u>	<u>\$ 12</u>	<u>0%</u>

The net position of business type activities is relatively stable. During the last two years the cash position improved somewhat due to better collection on receivables; this is the result of a more aggressive enforcement of the City's water shut off policy.

The infrastructure is somewhat older than the average for other metropolitan Detroit communities, and management continues to monitor repairs and replacement of the system.

Business-type Activities (Continued)

The following table shows, in a condensed format, the current year's changes in net position, compared to the prior two years (in thousands of dollars):

	Business-Type Activities				
	2011	2012	2013	Change 2013-2012	Percent
Revenue					
Program Revenue:					
Charges for Services	\$ 5,681	\$ 4,907	\$ 5,616	\$ 710	14%
Interest and Penalty Charges	317	263	341	78	30%
General Revenue:					
Property Taxes	-	1,049	761	(288)	-27%
State Grants	-	-	110	110	n/a
Investment Earnings	5	-	-	-	n/a
Total Revenue	<u>6,003</u>	<u>6,219</u>	<u>6,829</u>	<u>610</u>	<u>10%</u>
Program Expenses					
Cost of Water	839	928	1,083	155	17%
Cost of Sewage Treatment	3,775	3,493	3,672	179	5%
Operation & Maintenance	908	917	1,102	185	20%
Billing & Administrative	137	71	39	(32)	-45%
Depreciation	175	171	159	(12)	-7%
Lawsuit Settlement	-	1,005	761	(245)	-24%
Total Expenses	<u>5,835</u>	<u>6,585</u>	<u>6,816</u>	<u>231</u>	<u>4%</u>
Change in Net Position	<u><u>\$ 169</u></u>	<u><u>\$ (366)</u></u>	<u><u>\$ 12</u></u>	<u><u>\$ 379</u></u>	<u><u>-103%</u></u>

The enforcement of the City's water shut off policy helped reduce write-offs of customer receivables, resulting in somewhat higher revenue for 2013.

The property taxes represent the court ordered judgment levy of 5 mills in 2012 and 4 mills in 2013, and is offset by the lawsuit settlement expense.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The City's major funds for 2013 include the General Fund, the Major and Local Street Funds, the NSP2 Grant Fund, and the Water and Sewage Fund.

The General Fund pays for most of the City's governmental services. The General Fund currently has a significant structural deficit. Both 2011 and 2013 contain one-time financial transactions that skew the results – without these transactions, the shortfall would have been \$3.5 million, \$3.3 million and \$1.2 million for 2011, 2012 and 2013, respectively:

City of Hamtramck, Michigan

Management's Discussion and Analysis (Continued)

The City's Funds (Continued)

- 2011 included one-time property tax revenue of \$3.2 million from the settlement of the CIPP Inter-local Agreement with the City of Detroit (the Poletown plant)
- 2013 did not include \$2.3 million of pension expenditures that normally would have been included in the various expenditure categories for payment of the actuarially required contribution.

The following table shows the General Fund activity, on a modified accrual basis:

	General Fund				
	2011	2012	2013	Change 2013-2012	Percent
Revenue					
Property Taxes	\$ 9,013	\$ 6,651	\$ 6,296	\$ (356)	-5%
Income Taxes	1,842	2,034	2,015	(19)	-1%
Licenses & Permits	609	684	648	(36)	-5%
Federal Grants	-	-	978	978	n/a
State Shared Revenue	3,504	3,009	3,098	89	3%
Charges for Services	253	367	257	(110)	-30%
Fines & Forfeitures	1,394	1,391	1,807	416	30%
Investment Income	8	3	-	(3)	-100%
Other	685	688	633	(55)	-8%
Total Revenue	17,308	14,827	15,732	905	6%
Expenditures					
Current:					
General Government	3,051	2,838	2,632	(206)	-7%
District Court	572	616	604	(12)	-2%
Public Safety	11,774	12,015	8,496	(3,519)	-29%
Public Works	1,586	2,026	1,674	(352)	-17%
Community/Economic Develop't	80	75	77	2	3%
Debt Service	586	560	1,886	1,326	237%
Total Expenditures	17,649	18,131	15,369	(2,762)	-15%
Excess Revenue (Expenditures)	(341)	(3,303)	363	3,666	111%
Other Financing Sources (Uses):					
Issuance of Debt	-	-	1,340	1,340	n/a
Net Change in Fund Balance	(341)	(3,303)	1,703	5,006	152%
Fund Balances - Beginning of year	3,062	2,721	(582)	(3,303)	121%
Fund Balances - End of year	\$ 2,721	\$ (582)	\$ 1,121	\$ 1,703	93%

Property taxes, the most significant revenue source, continue to decline due to taxable value decreases. In 2013 the City obtained both a SAFER grant and a COPS grant which allowed it to hire additional fire and police officers. Fines and forfeitures were up by \$416,000 due to higher district court fines. This is primarily a function of traffic enforcement and other ticket revenue, which can be very difficult to predict.

The City's Funds (Continued)

The most significant expenditures are police and fire, which incurred expenses of approximately \$8.5 million in 2013, a reduction of \$3.5 million from the prior year. \$2.3 million of this decrease is due to the non-payment of pension contributions, as discussed above. During 2013 the City reduced staffing levels throughout most departments, resulting in an additional cost reduction of \$1.2 million for public safety, as well as reductions in General government and Public works.

The increased debt service was due to the current refunding of the 2002 Series A bonds; the bond call was funded through the issuance of the 2012B Local Government Loan Program revenue bonds, resulting in a lower interest rate.

General Fund Budgetary Highlights

The City overestimated its revenue budget relative to income taxes and licenses & permits, resulting in actual revenue approximately \$338,000 below estimates. In addition, the City was denied State approval for its budgeted \$3 million emergency loan. However, the City controlled expenditures sufficiently to end the year approximately \$1,465,000 below budget (before considering the debt refunding, which was not budgeted).

Capital Asset and Debt Administration

At the end of 2013, the City had \$11 million invested in a broad range of capital assets, including roads, buildings, police and fire equipment, and water and sewer lines. The City's replacement and major maintenance of capital assets continues to be reduced from historic levels, in response to the reduction in revenue and increased expenditures, making purchases only when necessary. There were no capital asset additions for the business type activities for the year ended June 30, 2013, and total additions of \$427,853 for the governmental activities, of which approximately \$400,000 related to roads.

The City issued the 2012B Local Government Loan Program revenue bonds in the current year in the amount of \$1.34 million, which were used to refinance the 2002 fiscal stabilization bonds, and achieve an interest rate savings.

Economic Factors and Next Year's Budgets and Rates

The future remains extremely challenging for the City of Hamtramck, Michigan. Although the General Fund ran a \$1.7 million surplus in 2013, as discussed above this was caused only because of only because of non-payment of the \$2.3 million required pension contribution.

The State of Michigan appointed an Emergency Manager (EM) to run the City effective July 1, 2013. The EM is responsible for balancing the annual operating budget and eliminating the cumulative deficit during the fiscal 2013-2014 year. In fiscal year 2014, the EM is working to increase revenues, reduce expenses and balance the budget.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the emergency manager's office at (313) 876-7700 ext. 346, or at 3401 Evaline, Hamtramck, MI 48212.

City of Hamtramck, Michigan

Statement of Net Position June 30, 2013

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and Investments (Note 3)	\$ 5,248,359	\$ 1,399,196	\$ 6,647,555	\$ 283,356
Receivables (Note 4)	1,750,273	2,794,984	4,545,257	-
Due from Component Units (Note 6)	151,768	-	151,768	-
Due from Agency Fund	201,633	-	201,633	-
Internal Balances	45,047	(45,047)	-	-
Prepaid Expenses and Other Assets	205,273	-	205,273	-
Capital Assets (Note 5):				
Assets not Subject to Depreciation	808,656	96,790	905,446	-
Assets Subject to Depreciation - Net	7,584,302	2,446,324	10,030,626	-
Total Assets	15,995,311	6,692,247	22,687,558	283,356
Liabilities:				
Accounts Payable	637,667	884,633	1,522,300	42,621
Due to Other Governmental Units	-	-	-	56,345
Due to Primary Government	-	-	-	151,768
Accrued and Other Liabilities	630,046	177,127	807,173	3,369
Deferred Revenue (Note 4)	342,498	-	342,498	-
Noncurrent Liabilities (Note 7):				
Due Within One Year:				
Compensated Absences	950,000	-	950,000	-
Long-term Debt	304,000	-	304,000	-
Due in More Than One Year:				
Compensated Absences	946,549	33,161	979,710	-
Other Noncurrent Liabilities	543,027	-	543,027	-
Net OPEB Obligation	2,213,030	76,495	2,289,525	-
Net Pension Liability	2,330,090	-	2,330,090	-
Long-Term Debt	1,249,000	-	1,249,000	-
Total Liabilities	10,145,907	1,171,416	11,317,323	254,103
Net Position (Deficit):				
Invested in Capital Assets - Net of Related Debt	8,392,958	2,543,114	10,936,072	-
Restricted:				
Streets and Highways	3,012,508	-	3,012,508	-
Drug Forfeiture Law Enforcement	528,764	-	528,764	-
Building and Improvement	389,103	-	389,103	-
Grants	3,441	-	3,441	-
Library	139,248	-	139,248	-
911 Emergency	254,192	-	254,192	-
Property Revitalization	413,654	-	413,654	-
Special Events	26,783	-	26,783	-
Unrestricted (Deficit)	(7,311,247)	2,977,717	(4,333,530)	29,253
Total Net Position (Deficit)	\$ 5,849,404	\$ 5,520,831	\$ 11,370,235	\$ 29,253

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Statement of Activities Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 3,496,484	\$ 130,073	\$ 1,807,336	\$ -
Public Safety	12,849,166	682,780	1,318,295	-
Public Works	2,392,686	232,625	1,273,646	-
Community and Economic Development	5,409,269	-	5,531,453	-
Recreation and Culture	741,624	-	-	-
Interest on Long-Term Debt	99,122	-	-	-
Total Government Activities	24,988,351	1,045,478	9,930,730	-
Business - Type Activities - Water and Sewer	6,816,280	5,957,381	-	-
Total Primary Government	<u>\$ 31,804,631</u>	<u>\$ 7,002,859</u>	<u>\$ 9,930,730</u>	<u>\$ -</u>
Component Units:				
Downtown Development Authority	64,065	-	-	34,204
31st District Court	-	-	-	-
Total Component Units	<u>\$ 64,065</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,204</u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Statement of Activities (Continued) Year Ended June 30, 2013

Functions/Programs	Net (Expense) Revenue and Charges in Net Position			
	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Primary Government:				
Governmental Activities:				
General Government	\$ (1,559,075)	\$ -	\$ (1,559,075)	\$ -
Public Safety	(10,848,091)	-	(10,848,091)	-
Public Works	(886,415)	-	(886,415)	-
Community and Economic Development	122,184	-	122,184	-
Recreation and Culture	(741,624)	-	(741,624)	-
Interest on Long-Term Debt	(99,122)	-	(99,122)	-
Total Government Activities	(14,012,143)	-	(14,012,143)	-
Business - Type Activities - Water and Sewer	-	(858,899)	(858,899)	-
Total Primary Government	(14,012,143)	(858,899)	(14,871,042)	-
Component Units:				
Downtown Development Authority	-	-	-	(29,861)
Total Component Units	-	-	-	(29,861)
General Revenues:				
Property Taxes	6,626,686	760,939	7,387,625	48,691
Income Taxes	2,015,176	-	2,015,176	-
State Revenues	3,305,566	110,328	3,415,894	-
Investment Income	41	-	41	-
Other Miscellaneous Income	813,029	-	813,029	-
Total General Revenues	12,760,498	871,267	13,631,765	48,691
Change in Net Position	(1,251,645)	12,368	(1,239,277)	18,830
Net Position (Deficit) - July 1, 2012	7,101,049	5,508,463	12,609,512	10,423
Net Position (Deficit) - June 30, 2013	<u>\$ 5,849,404</u>	<u>\$ 5,520,831</u>	<u>\$ 11,370,235</u>	<u>\$ 29,253</u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Governmental Funds Balance Sheet June 30, 2013

	Major Funds				Non-Major Governmental Funds	Total Governmental Funds
	General Fund	Major Streets Fund	Local Streets Fund	NSP2 Grants Fund		
Assets						
Cash And Investments	\$ 847,240	\$ 1,577,162	\$ 837,436	\$ 61,777	\$ 1,924,744	\$ 5,248,359
Receivables - Net (Note 4):						
Taxes	110,746	-	-	-	-	110,746
Other	290,101	-	-	-	-	290,101
Due from Other Governmental Units	974,764	145,143	44,526	68,049	116,944	1,349,426
Due from Component Units (Note 6)	141,718	-	-	-	10,050	151,768
Due from Other Funds (Note 6)	286,978	-	500,000	-	11,947	798,925
Prepaid Expenses and Other Assets	202,579	-	-	-	2,694	205,273
Total Assets	\$ 2,854,126	\$ 1,722,305	\$ 1,381,962	\$ 129,826	\$ 2,066,379	\$ 8,154,598
Liabilities And Fund Balances (Deficit)						
Liabilities						
Accounts Payable	\$ 393,385	\$ 48,468	\$ 43,291	\$ 129,826	\$ 22,697	\$ 637,667
Due To Other Funds (Note 6)	500,000	-	-	-	52,245	552,245
Accrued and Other Liabilities	549,312	-	-	-	72,801	622,113
Deferred Revenue (Note 4)	290,118	-	-	68,049	274,432	632,599
Total Liabilities	1,732,815	48,468	43,291	197,875	422,175	2,444,624
Fund Balances (Deficit)						
Nonspendable - Prepaids	202,579	-	-	-	2,694	205,273
Restricted						
Streets and Highways	-	1,673,837	1,338,671	-	-	3,012,508
Drug Law Enforcement	-	-	-	-	528,764	528,764
Grants	-	-	-	-	3,441	3,441
Property Revitalization (Note 13)	-	-	-	-	413,654	413,654
Library	-	-	-	-	139,248	139,248
911 Emergency	-	-	-	-	254,192	254,192
Building and Improvements	-	-	-	-	389,103	389,103
Special Events	-	-	-	-	26,783	26,783
Unassigned	918,732	-	-	(68,049)	(113,675)	737,008
Total Fund Balances (Deficit)	1,121,311	1,673,837	1,338,671	(68,049)	1,644,204	5,709,974
Total Liabilities And Fund Balances (Deficit)	\$ 2,854,126	\$ 1,722,305	\$ 1,381,962	\$ 129,826	\$ 2,066,379	\$ 8,154,598

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Governmental Funds Reconciliation of the Balance Sheet to The Statement of Net Position June 30, 2013

Fund Balances - Total Governmental Funds	\$ 5,709,974
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different because:	
Capital Assets used in Governmental Activities are not Financial Resources and are not Reported in the Funds.	8,392,958
Other Receivables that are Collected after Year End, such that they are Not Available to Pay Bills Outstanding as of Year End, are not Recognized in the Funds.	290,101
Bonds Payable are not Due and Payable in the Current Period and are not Reported in the Funds.	(1,553,000)
Accrued Interest is Not Due and Payable in the Current Period and is Not Reported in the Funds.	(7,933)
Employee Compensated Absences are Payable over a Long Period of Years and do not Represent a Claim on Current Financial Resources; Therefore, they are not Reported as Fund Liabilities.	(1,896,549)
Other Long-term Liabilities, such as Claims and Judgments and Post Employment Obligations, do not Present a Claim on Current Financial Resources and are not Reported as Fund Liabilities.	(2,756,057)
Net Pension Obligation does not Present a Claim on Current Financial Resources and is not Reported as a Fund Liability	<u>(2,330,090)</u>
Net Position Of Governmental Activities	<u>\$ 5,849,404</u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit) Year Ended June 30, 2013

	Major Funds					
	General Fund	Major Streets Fund	Local Streets Fund	NSP2 Grants Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenue						
Property Taxes	\$ 6,295,703	\$ -	\$ -	\$ -	\$ 330,983	\$ 6,626,686
Income Taxes	2,015,176	-	-	-	-	2,015,176
Licenses and Permits	647,622	-	-	-	-	647,622
Federal Grants	978,324	-	-	5,093,836	777,588	6,849,748
State Revenues and Grants	3,098,021	932,265	268,918	-	151,887	4,451,091
Charges for Services	257,102	-	-	-	140,754	397,856
Fines and Forfeitures	1,807,336	-	-	-	128,121	1,935,457
Investment Income	-	-	-	-	41	41
Other Revenue	632,836	-	43,686	-	136,507	813,029
Total Revenue	15,732,120	932,265	312,604	5,093,836	1,665,881	23,736,706
Expenditures						
Current:						
General Government	2,631,900	-	-	-	6,494	2,638,394
District Court	604,012	-	-	-	-	604,012
Public Safety	8,495,868	-	-	-	735,055	9,230,923
Public Works	1,673,964	339,187	642,617	-	-	2,655,768
Community and Economic Development	76,407	-	-	5,061,526	243,697	5,381,630
Recreation and Culture	-	-	-	-	630,471	630,471
Debt Service	1,886,293	-	-	-	167,829	2,054,122
Total Expenditures	15,368,444	339,187	642,617	5,061,526	1,783,546	23,195,320
Excess of Revenue Over (Under) Expenditures	363,676	593,078	(330,013)	32,310	(117,665)	541,386
Other Financing Sources/(Expenses)						
Proceeds from Issuance of Debt(note 7)	1,340,000	-	-	-	-	1,340,000
Operating Transfers In (Note 6)	-	-	200,000	-	-	200,000
Operating Transfers Out (Note 6)	-	(200,000)	-	-	-	(200,000)
Total Other Financing Sources	1,340,000	(200,000)	200,000	-	-	1,340,000
Net Change in Fund Balances	1,703,676	393,078	(130,013)	32,310	(117,665)	1,881,386
Fund Balances (Deficit) - July 1, 2012	(582,365)	1,280,759	1,468,684	(100,359)	1,761,869	3,828,588
Fund Balances (Deficit) - June 30, 2013	\$ 1,121,311	\$ 1,673,837	\$ 1,338,671	\$ (68,049)	\$ 1,644,204	\$ 5,709,974

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances Of Governmental Funds to the Statement of Activities Year Ended June 30, 2013

Net Change In Fund Balances - Total Governmental Funds	\$ 1,881,386
Amounts Reported for Governmental Activities in the Statement of Activities are different because:	
Governmental Funds Report Capital Outlays as Expenditures; in the Statement of Activities, these Costs are Allocated Over their Estimated Useful Lives as Depreciation:	
Capital Outlay	427,853
Depreciation Expense	(481,538)
Revenue Is Recorded in the Statement of Activities when Earned; It is Not Reported in the Funds Until Collected or Collectible Within 60 Days of Year End.	80,938
Repayment of Bond Principal is an Expenditure in the Governmental Funds, But Not In The Statement of Activities (Where it Reduces Long-Term Debt).	1,955,000
Proceeds from Bonds are Recorded as Other Financing Sources in the Governmental Funds, but Not in the Statement of Activities (where It Is Recorded as Long-term Debt).	(1,340,000)
Change in Accrued Interest Payable	11,152
Increase in Accumulated Employee Sick and Vacation Pay and Other Similar Expenses Reported in the Statement of Activities Do Not Require the Use of Current Resources, and therefore are Not Reported in the Fund Statements until they Come Due for Payment.	(38,512)
Other Postemployment Benefit Obligation Expense is Recognized in The Statement of Activities, but Not in the Governmental Funds	(1,390,505)
Increase in Pension Obligation is Recognized in the Statement Of Activities, but not in the Governmental Funds.	(2,330,090)
Decrease In Workers Compensation Liability Reduces Expenses In the Statement of Activities, but Not in the Governmental Funds.	<u>(27,329)</u>
Change In Net Position Of Governmental Activities	<u>\$ (1,251,645)</u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Proprietary Funds Statement of Net Position June 30, 2013

	<u>Enterprise - Water and Sewer Fund</u>
Assets	
Current Assets:	
Cash and Investments	\$ 1,399,196
Receivables:	
Taxes	488,494
Customer	<u>2,306,490</u>
Total Current Assets	4,194,180
Non-Current Assets - Capital Assets (Note 5):	
Assets Not Subject to Depreciation	96,790
Assets Subject to Depreciation	<u>2,446,324</u>
Total Non-Current Assets	<u>2,543,114</u>
Total Assets	<u>6,737,294</u>
Liabilities	
Current Liabilities:	
Accounts Payable	884,633
Due to Other Funds	45,047
Accrued and Other Liabilities	<u>177,127</u>
Total Current Liabilities	1,106,807
Non-Current Liabilities:	
Compensated Absences (Note 7)	33,161
Other Postemployment Benefit Obligation (Note 7)	<u>76,495</u>
Total Noncurrent Liabilities	<u>109,656</u>
Total Liabilities	<u>1,216,463</u>
Net Position	
Invested in Capital Assets - Net of Related Debt	2,543,114
Unrestricted	<u>2,977,717</u>
Total Net Position	<u>\$ 5,520,831</u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

	Enterprise - Water and Sewer Fund
Operating Revenue	
Charges for Services	\$ 5,616,488
Interest and Penalty Charges	<u>340,893</u>
Total Operating Revenue	5,957,381
Operating Expenses	
Cost of Water	1,082,825
Cost of Sewage Treatment	3,671,912
Operation and Maintenance	1,102,106
Billing and Administrative Costs	39,233
Depreciation	<u>159,416</u>
Total Operating Expenses	<u>6,055,492</u>
Operating Income (Loss)	<u>(98,111)</u>
Nonoperating Revenue (Expenses)	
Property Taxes	760,939
State Grants	110,328
Lawsuit Settlement (Note 14)	<u>(760,788)</u>
Total Nonoperating Income	<u>110,479</u>
Change in Net Position	12,368
Net Position - July 1, 2012	<u>5,508,463</u>
Net Position - June 30, 2013	<u><u>\$ 5,520,831</u></u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2013

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from Customers	\$ 6,006,703
Payments to Suppliers	(5,860,520)
Payments to Employees	161,021
Internal Activity - Payments from (to) Other Funds	196,793
	<hr/>
Net Cash Provided by Operating Activities	503,997
	<hr/>
Cash Flows from Nonoperating Financing Activities	
Property Taxes Levied For Lawsuit Settlement	760,939
Lawsuit settlement Payments	(760,788)
State Grants	110,328
	<hr/>
Net Cash Provided by Nonoperating Financing Activities	110,479
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	614,476
Cash and Cash Equivalents - July 1, 2012	784,720
	<hr/>
Cash and Cash Equivalents - June 30, 2013	\$ 1,399,196
	<hr/>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities	
Operating Income (Loss)	\$ (98,111)
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:	
Depreciation and Amortization	159,416
Changes in Assets and Liabilities:	
Receivables	49,322
Due from (to) Other Funds	196,793
Prepaid and Other Assets	2,478
Accounts Payable	(6,155)
Accrued and Other Liabilities	200,254
	<hr/>
Net Cash Provided by Operating Activities	\$ 503,997
	<hr/>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Fiduciary Funds Statement of Net Position June 30, 2013

	Development Agreement Escrow Private Purpose Trust Fund	Agency Funds
Assets		
Cash and Cash Equivalents	\$ 855,837	\$ 541,969
Total Assets	<u>855,837</u>	<u>\$ 541,969</u>
Liabilities		
Accounts Payable	41,978	\$ 2,223
Due to Other Governmental Units	-	219,775
Due to Other Funds	11,947	189,686
Accrued and Other Liabilities	-	130,285
Total Liabilities	<u>53,925</u>	<u>\$ 541,969</u>
Net Position		
Held in Trust for Development Agreement Escrow	<u>\$ 801,912</u>	

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Fiduciary Funds Statement of Revenue, Expenses, and Changes in Net Position Year Ended June 30, 2013

	Development Agreement Escrow Private Purpose Trust Fund
Additions - Investment Income	\$ -
Deductions - Community and Economic Development	<u>294,114</u>
Change in Net Position	(294,114)
Net Position - July 1, 2012	<u>1,096,026</u>
Net Position - June 30, 2013	<u><u>\$ 801,912</u></u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Component Units Combining Statement of Net Position June 30, 2013

	Downtown Development Authority	31 District Court	Total
Assets			
Cash and investments	\$ 24,125	\$ 259,231	\$ 283,356
Total Assets	<u>24,125</u>	<u>259,231</u>	<u>283,356</u>
Liabilities			
Accounts payable	977	41,644	42,621
Due to Other Governmental Units	-	56,345	56,345
Due to Primary Government	-	151,768	151,768
Accrued Liabilities and Other	<u>3,369</u>	<u>-</u>	<u>3,369</u>
Total Liabilities	<u>4,346</u>	<u>249,757</u>	<u>254,103</u>
Net Position - Unrestricted	<u>\$ 19,779</u>	<u>\$ 9,474</u>	<u>\$ 29,253</u>

The accompanying notes are an integral part of these financial statements.

City of Hamtramck, Michigan

Component Units Statement of Activities June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenue and Changes In Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	31st District Court	Total
Downtown Development Authority	\$ 64,065	\$ -	\$ -	\$ 34,204	\$ (29,861)	\$ -	\$ (29,861)
31st District Court	-	-	-	-	-	-	-
Total Governmental Activities	\$ 64,065	\$ -	\$ -	\$ 34,204	(29,861)	-	(29,861)
General Revenue:							
Property taxes					48,691	-	48,691
Investment Income					-	-	-
Total General Revenues					48,691	-	48,691
Change in Net Position (Deficit)					18,830	-	18,830
Net Position (Deficit) - July 1, 2012					949	9,474	10,423
Net Position (Deficit) - June 30, 2013					\$ 19,779	\$ 9,474	\$ 29,253

The accompanying notes are an integral part of these financial statements.

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Hamtramck, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Hamtramck, Michigan:

Reporting Entity

The City of Hamtramck, Michigan is governed by an elected six-member council and an elected mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units

Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 10 individuals, is appointed by the mayor, subject to approval of the City Council. In addition, the DDA's budget is subject to approval by the City Council. The DDA does not issue a separate financial report. The DDA's administrative offices are located at 3401 Evaline, Hamtramck, Michigan 48212.

31st District Court - The 31st District Court (the "District Court") records the collection of amounts that are subsequently returned to or paid to third parties. The fund also maintains certain fees collected on behalf of the City's General Fund to pay jury fees and certain operating expenses. The District Court is also collecting a fee to provide funds for the renovation and/or construction of a new court building. The District Court is governed by separately elected judges. However, it is included here because it is fiscally dependent on the City. Complete financial reports of the District Court can be obtained at its administrative offices at 3401 Evaline, Hamtramck, Michigan 48212.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

1) **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

1) **NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Major Streets – The Major Streets Fund is a special revenue fund that is used to account for the State of Michigan Act 51 monies that are used to construct and maintain major road systems.

Local Streets – The Local Streets Fund is a special revenue fund that is used to account for the State of Michigan Public Act 51 monies that are used to construct and maintain local road systems. This fund also receives a contribution from the Major Streets Fund to help maintain the local streets.

NSP2 Fund – NSP2 Fund is a special revenue fund that is used to account for the Neighborhood Stabilization Program.

The City reports the following major proprietary fund:

Water and Sewer Fund - The Water and Sewer Fund is used to account for the activities of the water distribution and sewage collection systems.

Additionally, the City reports the following fiduciary activities:

Agency Funds - The Agency Funds account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of the results of operations.

Development Agreement Escrow Fund - The Development Agreement Escrow Fund records money held in trust resulting from a 1981 court judgment. The judgment required the City to create a Tax Increment Finance Authority (TIFA) District (R-31). All revenue, including property taxes, income taxes, and sale and building permit proceeds, must be held in this fund and used for the replacement and rehabilitation of homes in this district. The judgment called for the creation of two corporations to supervise the development in this district.

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Policies

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenue reported for the various functions concerned.

When an expense is incurred for purposes for which both restricted and unrestricted net position or fund balance are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) and the cost of infrastructure as operating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 and December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The City's 2012 tax is levied and collectible on July 1 and December 1, 2012 and is recognized as revenue in the year ended June 30, 2013, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2012 taxable valuation of the City totaled \$192.3 million (a portion of which is abated and a portion of which is captured by the DDA). Taxes were levied as follows:

Purpose	Millage Rate	Revenue (Net of DDA Captures)
General Operating	19.5944	\$ 3,751,881
Rubbish	2.9399	562,749
Police and Fire Pension	0.5000	99,760
Library	1.8171	347,813
DDA District	1.8251	51,364
Court Order	4.0000	765,710

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Position or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value, based on quoted market prices.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Road and Sidewalks	30 years
Street Lights	20 years
Water and Sewer Facilities	50 years
Building and Building Improvements	15 to 50 years
Vehicles	5 to 20 years
Machinery and Equipment	5 to 12 years
Library Collection	10 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Other Postemployment Benefit Costs - The City offers retiree healthcare benefits to retirees. The City receives an actuarial valuation to compute the annual required contribution (ARC) necessary to fund the obligation over the remaining amortization period. In the governmental funds, OPEB costs are recognized as contributions are made. For the government-wide statements and proprietary funds, the City reports the full accrual cost equal to the current year required contribution, adjusted for interest and "adjustment to the ARC" on the beginning of year underpaid amount, if any.

Fund Equity – GASB Statement No. 54, Fund Balance Reporting and Governmental Fund-type Definitions, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed on the use of the resources reported in governmental funds.

In the fund financial statements, governmental funds report the following components of fund balance:

- **Nonspendable** – amounts that are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted** – amounts that are legally restricted by outside parties, constitutional provisions, or enabling legislation for use for a specific purpose.
- **Committed** – Amounts that have been formally set aside by the City Council for use for specific purposes. Commitments are made and can be rescinded only via resolution of the City Council.

1) NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICES (Continued)

Fund Equity (Continued)

- Assigned – Intent to spend resources on specific purposes expressed by the City Council or finance director, who is authorized by resolution and approved by the governing body to make assignments.
- Unassigned – Amounts that do not fall into any other category above. This is the residual classification for amounts in the General Fund and represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes in the General Fund. In other governmental funds, only negative unassigned amounts are reported, if any, and represent expenditures incurred for specific purposes exceeding the amounts previously restricted, committed, or assigned to those purposes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Construction Code Fees - The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2011 is as follows:

Shortfall at July 1, 2012			\$ (1,488,656)
Current Year Building Permit Revenue			187,261
Related Expenses:			
Direct Costs	\$	115,543	
Estimated Indirect Costs		46,217	(161,760)
Current Year Shortfall			25,501
Cumulative Shortfall at June 30, 2013			<u>\$ (1,463,155)</u>

2) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

Fund Deficit – Although, the general fund has a fund balance of \$1,121,311 at June 30, 2013, this is due to the nonpayment of \$2.3 million of the City's actuarially determined pension obligation. If such pension payments had been made, the General Fund would have a deficit of \$1.2 million at June 30, 2013. The City has made various layoffs and is reviewing its contracts and general operations to see where possible reductions can be made.

The NSP2 Grants fund, the Community Development Block Grant Fund, and the Misc. Grants fund have an accumulated unassigned deficit of \$ 68,049, \$ 54,245 and \$ 61,430 respectively. These deficits are as a result of the timing difference between grant expenses and reimbursements.

Pension Obligation – During the year ended June 30, 2013, the City's actuarially determined pension cost was \$3,169,757. Of this amount, \$2,330,090 was unpaid. The pension obligation is required under State law to be funded, and non-payment is a violation of state law.

3) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the City in accordance with Public Act 196 of 1997 follows the state statutory authority as listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. The GASB has established risk categories for deposits as follows:

- Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

3) DEPOSITS AND INVESTMENTS**Custodial Credit Risk of Bank Deposits (Continued)**

- Category 3 - Uncollateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name.

At year end, the City had \$8,100,346 of bank deposits (checking and savings accounts), of which \$250,000 was FDIC insured (Category 1) and \$7,850,346 was uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities. At year end, the City had no investment securities susceptible to interest rate risk.

Credit Risk – State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year-end, the City held no debt securities.

Component Unit - District Court - The cash of the District Court consists only of bank deposits. The District Court does not have a deposit policy for custodial credit risk. At year end, the District Court had \$250,196 of bank deposits (certificates of deposit, checking, and savings accounts), of which \$ 250,000 was insured and collateralized.

4) RECEIVABLES AND DEFERRED REVENUE

Receivables as of year-end for the City's individual major funds and the non-major and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Streets Fund	Local Streets Fund	NSP 2 Fund	Nonmajor Funds	Total	Water and Sewer Fund	Total
Receivables:								
Taxes	\$110,746	\$ -	\$ -	\$ -	\$ -	\$110,746	\$488,494	\$599,240
Other	290,101	-	-	-	-	290,101	2,306,490	2,596,591
Due from Other Governmental Units	974,764	145,143	44,526	68,049	116,944	1,349,426	-	1,349,426
Net Receivables	<u>\$1,375,611</u>	<u>\$145,143</u>	<u>\$44,526</u>	<u>\$68,049</u>	<u>\$116,944</u>	<u>\$1,750,273</u>	<u>\$2,794,984</u>	<u>\$4,545,257</u>

4) RECEIVABLES AND DEFERRED REVENUE (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Governmental Funds		
	Unavailable	Unearned	Total
Special Assessments	\$ 290,101	\$ -	\$ 290,101
Unspent Grant Proceeds	-	342,498	342,498
Total	\$ 290,101	\$ 342,498	\$ 632,599

5) CAPITAL ASSETS

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance June 30 2012	Additions	Disposals	Balance June 30, 2013
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	\$ 808,656	\$ -	\$ -	\$ 808,656
Capital Assets being Depreciated:				
Roads, Sidewalks and Alleys	6,270,685	400,489	-	6,671,174
Street Lights	223,248	-	-	223,248
Buildings and Improvements	4,436,042	-	-	4,436,042
Machinery and Equipment	387,296	-	-	387,296
Vehicles	4,089,633	-	-	4,089,633
Library Collection	1,187,484	27,364	(15,000)	1,199,848
Subtotal	16,594,388	427,853	(15,000)	17,007,241
Accumulated Depreciation:				
Roads, Sidewalks and Alleys	3,935,978	105,272	-	4,041,250
Street Lights	80,747	11,162	-	91,909
Buildings and Improvements	1,311,475	93,088	-	1,404,563
Machinery and Equipment	263,226	27,743	-	290,969
Vehicles	2,407,240	202,572	-	2,609,812
Library Collection	957,735	41,701	(15,000)	984,436
Subtotal	8,956,401	481,538	(15,000)	9,422,939
Net Capital Assets being Depreciated	7,637,987	(53,685)	-	7,584,302
Net Capital Assets	\$ 8,446,643	\$ (53,685)	\$ -	\$ 8,392,958

5) CAPITAL ASSETS – (Continued)

Business-Type Activities:	Balance July 1, 2012	Additions	Disposals	Balance June 30, 2013
Capital Assets not being Depreciated:				
Land	\$ 96,790	\$ -	\$ -	\$ 96,790
Capital Assets being Depreciated:				
Water and Sewer Mains	3,771,916	-	-	3,771,916
Machinery and Equipment	1,415,290	-	-	1,415,290
Subtotal	5,187,206	-	-	5,187,206
Accumulated Depreciation:				
Water and Sewer Mains	1,399,136	54,693	-	1,453,829
Machinery and Equipment	1,182,330	104,723	-	1,287,053
Subtotal	2,581,466	159,416	-	2,740,882
Net Capital Assets being Depreciated	2,605,740	(159,416)	-	2,446,324
Net Capital Assets	<u>\$ 2,702,530</u>	<u>\$ (159,416)</u>	<u>\$ -</u>	<u>\$ 2,543,114</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

General Government	\$ 82,960
Public Safety	219,060
Public Works	116,434
Recreation and Culture	63,084

Total Governmental Activities \$ 481,538

Business-Type Activities - Water and sewer \$ 159,416

Construction Commitments - The City had no active construction projects at year end.

6) INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of inter-fund balances is as follows:

<u>Fund Due to</u>	<u>Fund Due from</u>	<u>Amount</u>
Due to/from Other Funds		
General Fund	CDBG (Nonmajor Governmental Fund) \$	52,245
	Water and Sewer Fund	45,047
	Agency Fund	<u>189,686</u>
	Total General Fund	286,978
Local Streets Fund	General Fund	500,000
Drug Law Enforcement-Federal- (Nonmajor Governmental Fund)	Fiduciary fund - Development Agreement Escrow	<u>11,947</u>
	Total	<u>\$ 798,925</u>
 <u>Receivable Fund</u>	 <u>Payable Fund</u>	 <u>Amount</u>
Due to/from Primary Government And Component Units		
General Fund	31st District Court	\$ 141,718
Building & Improvement- (Nonmajor Governmental Fund)	31st District Court	<u>10,050</u>
	Total	<u>\$ 151,768</u>

6) INTER-FUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Inter-fund transfers reported in the fund financial statements are comprised of the following:

Transfers Out	Transfers In	Amount
Major Fund - Major Street Fund	Major Fund - Local Streets Fund	\$ 200,000
		<u>\$ 200,000</u>

The transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenue in accordance with Act 51.

7) LONG-TERM DEBT

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Governmental Activities						
General Obligation Bonds						
2004 Series A Refunding Bonds,						
Issued in the Amount of \$2,865,000.						
Principal Payments are Due Annually on May 1, Maturing in 2013	2.75% - 3.75%	\$ 340,000	\$ -	\$ (340,000)	\$ -	\$ -
2002 Fiscal Stabilization Bonds						
Issued in the Amount of \$2,500,000.						
Principal Payments are Due Annually on November 1, Maturing in 2021.	4.30% - 5.15%	1,435,000	-	(1,435,000)	-	-
2012B Local Government Loan Program Revenue Bonds						
Issued in the Amount of \$ 1,340,000.						
Principal Payments are Due Annually on November 1, Maturing in 2020.	3.00% - 3.00%	0	1,340,000	(20,000)	1,320,000	145,000
Grand Haven/Dyar Section 108						
Loan, at the Authorized amount of \$750,000. Principal Payments are Due Annually on August 1, Maturing in 2013.						
	3.8% - 5.0%	167,000	-	(84,000)	83,000	83,000
Joseph Campau Streetscape						
Project Section 108 Loan, at an Authorized Amount of \$758,000. Principal Payments are Due Annually on August 1, Maturing in 2014.						
	3.90% - 5.10%	226,000	-	(76,000)	150,000	76,000
Total Bond Obligations		2,168,000	1,340,000	(1,955,000)	1,553,000	304,000
Employee Compensated Absences		1,858,037	1,114,822	(1,076,310)	1,896,549	950,000
Other Postemployment Benefit Obligation (Note 10)		822,525	1,390,505	-	2,213,030	-
Workers' Compensation (Note 8)		390,698	179,552	(152,223)	418,027	-
General Liability (Note 8)		125,000	237,214	(237,214)	125,000	-
Total Governmental Activities		<u>\$ 5,364,260</u>	<u>\$ 4,262,093</u>	<u>\$ (3,420,747)</u>	<u>\$ 6,205,606</u>	<u>\$ 1,254,000</u>

7) LONG-TERM DEBT (Continued)

	Balance July 1, 2012	Additions	Reductions	Balance June 30, 2013	Due Within One Year
Business-type Activities					
Employee Compensated Absences	\$ 42,417	\$ 25,450	\$ (34,706)	\$ 33,161	\$ -
Other Postemployment Benefit Obligation (Note 10)	29,713	46,782		76,495	-
Total Business-type activities	\$ 72,130	\$ 72,232	\$ (34,706)	\$ 109,656	\$ -
Component Unit Activities					
Other Postemployment Benefit Obligation (Note 10)	\$ 4,685	\$ -	\$ (4,685)	\$ -	\$ -

Annual debt service requirements to maturity for the above bonds and note obligations (excluding amortization of bond issuance costs and discounts) are as follows:

Years Ending June 30	Principal	Interest	Total
2014	\$ 304,000	\$ 37,705	\$ 341,705
2015	224,000	31,350	255,350
2016	160,000	26,700	186,700
2017	165,000	21,825	186,825
2018	165,000	17,700	182,700
2019-2021	535,000	24,525	559,525
Total	\$ 1,553,000	\$ 159,805	\$ 1,712,805

The 2012 local government loan program revenue bonds are secured by the City's pledge and assignment of all payments the City is eligible to receive under Act 140 ("Distribution Aid").

8) RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for fleet, dishonesty, boiler, and medical benefits. The City is partially self-insured for general liability claims and uninsured for workers' compensation claims. Beginning July 1, 2011, the City became partially insured for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The City estimates the liability for workers' compensation claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. In addition, the City estimates the general liability claims that are in excess of its aggregate limits. Changes in the estimated liability for the past two fiscal years were as follows:

	General Liability		Workers' Compensation	
	2013	2012	2013	2012
Unpaid Claims - Beginning of Year	\$ 125,000	\$ 125,000	\$ 390,698	\$ 553,813
Incurred Claims, Including Claims Incurred but not Reported	237,214	231,242	179,552	(66,220)
Claims Payments	(237,214)	(231,242)	(152,223)	(96,895)
Unpaid Claims - End of Year	\$ 125,000	\$ 125,000	\$ 418,027	\$ 390,698

9) **DEFINED BENEFIT PENSION PLAN**

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers substantially all full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplemental information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent.

Annual Pension Cost - For the year ended June 30, 2013, the City's annual pension cost was \$3,169,757 out of which only \$839,667 was paid during the year.

Three-year trend information is as follows:

	Fiscal Years Ended June 30		
	2013	2012	2011
Annual Pension Cost (APC)	\$ 3,169,757	\$ 3,538,763	\$ 3,215,370
Percentage of APC Contributed	26%	100%	100%
Net Pension Obligation	2,330,090	\$ -	\$ -

	Actuarial Valuation as of December 31		
	2012	2011	2010
Actuarial Value of Assets	53,904,645	\$ 55,844,949	\$ 57,054,195
Actuarial Accrued Liability (AAL)			
(Entry Age)	99,412,617	98,369,931	96,026,479
Unfunded AAL (UAAL)	45,507,972	42,524,982	38,972,284
Funded Ratio	54.20%	56.8%	59.4%
Covered Payroll	6,532,664	6,752,884	6,859,618
UAAL as a Percentage of Covered Payroll	696.60%	629.7%	568.1%

Actuarial Methods and Assumptions - In the December 31, 2011 actuarial valuation (the most recent actuarial valuation), the entry age actuarial cost method was used. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.50 percent per year attributable to inflation, and (c) additional salary increase of 0 percent to 8.4 percent per year attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of

9) DEFINED BENEFIT PENSION PLAN (Continued)**Actuarial Methods and Assumptions (Continued)**

short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 27 years.

Policemen and Firemen Plan - Prior to 1994, the City operated a self-administered pension system for its police and fire personnel. During the 1980s and early 1990s, the City did not fully fund this pension system in accordance with actuarially required contributions. In June 1994, the Wayne County Circuit Court (the "Court") ordered the City's pension plan to be transferred to the Michigan Municipal Employees' Retirement System. The Court also ordered the City to fund the total unfunded accrued liability of \$37,886,752 over a 20-year period in annual installments. The City's annual pension contribution includes a provision to fund this unfunded liability. As a result of the underpayments during the 1980s and early 1990s, the City has a net pension obligation. However, this amount has not been calculated by either the actuary or the City.

10) OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The City provides healthcare and dental insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Life insurance is provided to employees from AFSCME Local 666 upon retirement. Currently, the plan has 207 members, of which 203 retirees are eligible for dental and health care and for life insurance.

This is a single-employer defined benefit plan administered by the City. The benefits are provided under collective bargaining agreements. The plan does not issue a separate stand-alone financial statement. Administrative costs are paid by the plan through employer contributions. The City allowed certain police retirees, those who retired between July 1, 1986 and June 30, 1989, to pay for their own healthcare benefits after age 65. There are currently six police retirees that purchase their healthcare benefits through a deduction from their pension checks. In addition, the City allowed police and firefighters the option to continue to pay for their own life insurance. There are currently 46 retired police/firefighters that purchase life insurance through a deduction from their pension checks. Expenditures for the postemployment benefits are recognized as the insurance premiums become due.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining units. The City has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a "pay-as-you-go" basis).

10) OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Progress - For the year ended June 30, 2013, the City has estimated the cost of providing retiree healthcare benefits through an actuarial valuation as of May 1, 2011. The valuation computes an annual required contribution, which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. This valuation's computed contribution and actual funding are summarized as follows:

Annual Required Contribution (Recommended)	\$ 2,997,892
Interest on Net OPEB Obligation	36,248
Annual OPEB Cost	3,034,140
Amounts Contributed:	
Payments of Current Premiums	<u>(1,601,538)</u>
Increase in Net OPEB Obligation	1,432,602
OPEB Obligation - Beginning of Year	<u>856,923</u>
OPEB Obligation - End of Year	<u><u>\$ 2,289,525</u></u>

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation for the current year are as follows:

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
6/30/11	5/1/09	2,120,090	108.5	403,759
6/30/12	5/1/11	2,868,796	85	856,923
6/30/13	5/1/11	2,997,892	53.4	2,289,524

The funding progress of the plan is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
5/1/09	\$ -	\$ 30,693,743	\$30,693,743	\$ -	\$ 5,588,458	549.2
5/1/11	-	47,287,476	47,287,476	-	6,102,453	774.9

10) OTHER POSTEMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the May 1, 2011 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative costs), a projected salary increase rate of 4.5 percent, and an annual healthcare cost trend rate of 5 percent. The UAAL is being amortized at May 1, 2011 over 30 years on an open basis.

11) THE WYANDOTTE PROJECT (MICHIGAN R-31)

A class action lawsuit was brought against the City by minority residents who lived in the R-31 Urban Renewal Area (Wyandotte Project) who alleged discrimination in the City of Hamtramck and the U.S. Department of Housing (HUD) Urban Development Program.

The Court determined that there was merit to the complaint and the decision ordered the City to set up a Tax Increment Financing Authority (TIFA) district in the R-31 area. All revenue collected in this area, including property taxes, income tax, permits, interest, and property sales, must be placed in a separate fund and used for the construction of housing for the families displaced by the development project.

The City is currently in the process of satisfying the judgment. The Development Agreement Escrow Fund was created to accumulate the earmarked revenue. The fund had reserved fund balance of \$801,913 at June 30, 2013.

The City completed the infrastructure for the project, including putting in water and sewer lines and construction of streets and sidewalks, during the year ended June 30, 2005. All prior year infrastructure expenditures incurred were paid from Community Development Block Grant revenue, Section 108 loans, Brownfield Economic Initiative program loans and grants, Wayne County Brownfield Redevelopment loans, and contributions from the Major, Local, and Water and Sewer Funds. The City began actual housing construction in spring 2006. Cumulative costs for this project through June 30, 2013 total approximately \$9,856,000. The remaining fund balance will be used for per decision of the court in this respect. The actual housing construction has been completed by fiscal year 2013.

12) CENTRAL INDUSTRIAL PARK PROJECT (CIPP INTERLOCAL AGREEMENT)

The CIPP Interlocal agreement is an agreement between the City, Wayne County, and the City of Detroit regarding the distribution of property tax and income tax revenue generated from the GM Poletown property. Under the agreement, the City is guaranteed to receive 50 percent of all amounts collected and the City of Detroit will receive the other 50 percent. During the current year, the City received approximately \$788,000 relating to this agreement. Due to declining property tax and income tax revenue from this property, the City expects to receive \$500,000 annually.

13) ENVIRONMENTAL COMMITMENT

In a prior year, the City and additional defendants entered into a consent judgment with the State of Michigan and the Michigan Department of Environmental Quality (MDEQ) to clean up a piece of property. The agreement called for the property to be cleaned up and an amount to be placed in a trust for future operating and maintenance costs. The City completed the cleanup during 2003 and placed approximately \$442,000 in a trust for future operating and maintenance costs related to the property. The balance in the trust at June 30, 2013 totaled approximately \$414,000.

14) CLASS ACTION SUIT SETTLEMENT AGREEMENT

During the year ended June 30, 2012, a class action suit against the City was settled through the Court requiring the City to pay \$ 1,600,000 to the various claimants. To meet this, the City levied a millage of 4.0000 and collected net revenue of \$ 1,005,461 during the year ended June 30, 2012. During the current year, the City collected a net amount of \$760,788 and disbursed \$ 594,539 and has recorded a liability for future disbursements of \$ 166,249 in the Water Fund.

15) CONTINGENT LIABILITIES

The City has been named as a defendant in multiple claims and lawsuits requesting damages of various amounts. The various proceedings have not yet progressed to the point where legal opinions can be reached as to the ultimate liabilities, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability as of June 30, 2013.

16) SUBSEQUENT EVENTS

As of July 1, 2013, an Emergency Manager was appointed by the State to administer the affairs of the City.

All other subsequent events were reviewed through December 26, 2013, the date the financial statement were available to be issued. No subsequent event was noted requiring recording or disclosing in the financial statements.

17) ADOPTION OF NEW ACCOUNTING POLICIES

Effective July 1, 2012, the City adopted the provisions of the following accounting pronouncement:

GASB Statement No. 63, Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of resources, and Net Position. This Statement incorporates deferred outflow of resources and deferred inflow of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This Statement also provides a new statement of the net position format to report all assets, deferred outflow of resources, liabilities, deferred inflow of resources, and net position. Adoption of this standard did not result in restatement or reclassification of opening net position of fund balances.

18) UPCOMING ACCOUNTING PRONOUNCEMENTS

In March 2012, the GASB issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is required to be implemented for financial statements for periods beginning after December 15, 2012. Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources. Statement No. 65 will be implemented for the City as of June 30, 2014.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This net pension liability that will be recorded on the government-wide, proprietary, and discretely presented component units statements will be computed differently than the current unfunded actuarial accrued liability, using specific parameters set forth by the GASB. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The City is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the year ending June 30, 2015.

REQUIRED SUPPLEMENTAL INFORMATION

City of Hamtramck, Michigan

Required Supplemental Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property Taxes	\$ 6,060,900	\$ 6,166,400	\$ 6,295,703	\$ 129,303
Income Taxes	2,132,000	2,289,655	2,015,176	(274,479)
Licenses and Permits	630,000	1,068,576	647,622	(420,954)
Federal Grants	-	975,000	978,324	3,324
State-Shared Revenues and Grants	2,999,327	3,018,883	3,098,021	79,138
Charges for Services	340,000	265,000	257,102	(7,898)
Fines and Forfeitures	1,450,000	1,650,000	1,807,336	157,336
Other Revenue	1,035,000	637,000	632,836	(4,164)
Total Revenue	14,647,227	16,070,514	15,732,120	(338,394)
Expenditures				
Current:				
General Government				
Legislative	56,653	54,153	47,328	6,825
City Manager's Office	109,326	199,129	130,653	68,476
Controller	272,610	288,510	204,282	84,228
Treasurer	181,203	219,552	173,574	45,978
Assessing	171,313	129,450	90,745	38,705
Clerk	164,457	195,607	198,212	(2,605)
Elections	35,300	-	-	-
Legal	400,000	407,500	374,882	32,618
Personnel	253,274	263,191	198,767	64,424
Income Tax	365,011	378,572	335,874	42,698
General Administration	1,188,500	396,000	323,694	72,306
Retiree	-	851,203	553,889	297,314
Total General Government	3,197,647	3,382,867	2,631,900	750,967
District Court	594,269	625,744	604,012	21,732
Public Safety:				
Police	6,104,037	5,968,410	4,486,432	1,481,978
Fire	4,993,247	5,058,313	3,807,542	1,250,771
Building Inspections and Related	240,000	7,580	40,628	(33,048)
Auto Theft Grant	186,629	171,592	161,266	10,326
Total Public Safety	11,523,913	11,205,896	8,495,868	2,710,028
Public Works	1,597,649	1,893,605	1,673,964	219,641
Community and Economic Development	169,033	169,321	76,407	92,914
Debt Service	545,590	545,590	1,886,293	(1,340,703)
Total Expenditures	17,628,100	17,823,024	15,368,444	2,454,580
Excess of Revenue Over (Under) Expenditures	(2,980,873)	(1,752,510)	363,676	2,116,186
Other Financing Sources (Uses)				
Proceeds from Issuance of Debt	-	-	1,340,000	1,340,000
Emergency Loan	3,000,000	-	-	-
Total Other Financing Sources (Uses)	3,000,000	-	1,340,000	1,340,000
Net Change in Fund Balance	19,127	(1,752,510)	1,703,676	3,456,186
Fund Balances - July 1, 2012	(582,365)	(582,365)	(582,365)	-
Fund Balances - June 30, 2013	\$ (563,238)	\$ (2,334,875)	\$ 1,121,311	\$ 3,456,186

City of Hamtramck, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund – Major Street Fund Year Ended June 30, 2013

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
State-Shared Revenues and Grants	\$ 800,000	\$ 800,000	\$ 876,607	\$ 76,607
Metro Authority Income	51,000	51,000	55,658	4,658
Total Revenue	851,000	851,000	932,265	81,265
Expenditures - Current - Public Works				
Routine Maintenance	115,000	100,000	26,983	73,017
Winter Maintenance	150,000	150,000	145,312	4,688
Traffic Services	65,000	80,000	74,531	5,469
Administration	80,000	80,000	87,661	(7,661)
Engineering	15,000	15,000	4,700	10,300
Nonmotorized Improvements	80,000	80,000	-	80,000
Total Expenditures	505,000	505,000	339,187	165,813
Excess of Revenue Over (Under) Expenditures	346,000	346,000	593,078	247,078
Other Financing Sources (Uses)				
Operating Transfer In (Out)	(200,000)	(200,000)	(200,000)	-
Net Change in Fund Balance	146,000	146,000	393,078	247,078
Fund Balances - July 1, 2012	1,280,759	1,280,759	1,280,759	-
Fund Balances - June 30, 2013	\$ 1,426,759	\$ 1,426,759	\$ 1,673,837	\$ 247,078

City of Hamtramck, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund – Local Street Fund Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue				
State-Shared Revenues and Grants	\$ 250,000	\$ 250,000	\$ 268,918	\$ 18,918
Other Revenue	-	-	43,686	43,686
Total Revenue	<u>250,000</u>	<u>250,000</u>	<u>312,604</u>	<u>62,604</u>
Expenditures - Current - Public Works				
Routine Maintenance	100,000	100,000	514,694	(414,694)
Winter Maintenance	120,000	120,000	9,174	110,826
Traffic Services	8,500	8,500	4,368	4,132
Administration	25,000	25,000	26,892	(1,892)
Engineering	15,000	15,000	-	15,000
Capital Outlays	-	-	87,489	(87,489)
Nonmotorized Improvements	25,000	25,000	-	25,000
Total Expenditures	<u>293,500</u>	<u>293,500</u>	<u>642,617</u>	<u>(349,117)</u>
Excess of Revenue Over (Under) Expenditure:	(43,500)	(43,500)	(330,013)	(286,513)
Other Financing Sources (Uses)				
Operating Transfer In (Out)	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>-</u>
Net Change in Fund Balance	156,500	156,500	(130,013)	(286,513)
Fund Balances - July 1, 2012	<u>1,468,684</u>	<u>1,468,684</u>	<u>1,468,684</u>	<u>-</u>
Fund Balances - June 30, 2013	<u>\$ 1,625,184</u>	<u>\$ 1,625,184</u>	<u>\$ 1,338,671</u>	<u>\$ (286,513)</u>

City of Hamtramck, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Fund – NSP2 Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget</u>
Revenue				
Federal grants	\$6,275,967	\$ 6,275,967	\$5,093,836	\$ (1,182,131)
Expenditures - Current				
Community and Economic Development	<u>6,275,967</u>	<u>6,275,967</u>	<u>5,061,526</u>	<u>1,214,441</u>
Excess of Revenue Over (Under) Expenditure:	-	-	32,310	32,310
Fund Balances - July 1, 2012	<u>(100,359)</u>	<u>(100,359)</u>	<u>(100,359)</u>	<u>-</u>
Fund Balances - June 30, 2013	<u><u>\$ (100,359)</u></u>	<u><u>\$ (100,359)</u></u>	<u><u>\$ (68,049)</u></u>	<u><u>\$ 32,310</u></u>

City of Hamtramck, Michigan

Note to Required Supplemental Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds except that reimbursements have been included in the "revenue" category, rather than as a reduction to expenditures. All annual appropriations lapse at fiscal year-end. The annual budget is prepared by the City's management and adopted by the City Council; subsequent amendments are approved by the City Council.

The City adopts its budget based on total expenditures by fund, except for the General Fund for which it adopts budgeted expenditures on an activity basis. This then represents the level of classification detail at which expenditures may not legally exceed appropriations. Expenditures at this level in excess of amounts budgeted are in violation of Michigan law. The level of detail presented in the required supplemental information for the General Fund is on this budget basis. Copies of the budget for all budgeted funds are available at the office of the city clerk.

The budget process is initiated in January, when the departments are given information and guidelines to assist them in formulating their budget requests. The department heads summarize the departmental appropriation requests and submit them to the finance director on or before February 15. During the month of February, the city manager and finance director review the appropriation requests, meet with the departments and the mayor, and put together the budget. By the first of March, the City Council adopts a budget calendar that establishes deadlines for review and adoption phases for the upcoming fiscal year. The budget is submitted to the City Council for approval on or before May 15. During the next two weeks, the City Council reviews the budget and considers any changes. After a public hearing, the final budget is adopted by a resolution no later than the second day in June.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis level.

During the current year, the budgets were amended in a legally permissible manner. Budget appropriations lapse at year end. Encumbrances are not included as expenditures and the amount of encumbrances outstanding at June 30, 2013 has not been calculated.

Excess of Expenditures over Appropriations in Budgeted Funds – During the year, the City's General Fund incurred City Clerk's Office costs in excess of budget by \$2,605, Building Inspections and related expenditures in excess of budget by \$33,048 and debt service expenditure in excess of the budget by \$1,340,703.

For the Major Street Fund, the Administration expenses were \$ 7,661 in excess of the budget.

For the Local Streets fund, the expenditures on Routine Maintenance, Administration, and capital outlays were in excess of the budget by \$ 414,694, \$1,892, and \$ 87,489 respectively.

Excess of Expenditures over Appropriations in Budgeted Funds (Continued) - The unfavorable variance in the General Fund City Clerk's office costs was due to higher postage costs. The Building Inspections and related expenditure was over the budget due to higher than anticipated costs. The debt service expenditure was higher than the budget due to the refunding of 2002 Fiscal Stabilization Bonds.

The unfavorable variance in the Major Street Fund and Local Streets Fund-Administration expense was due to the higher ACT 51 revenue than budgeted. Further, the expenditures on Routine Maintenance and capital outlays were in excess of the budget due to additional street sidewalks and cementing work required.

OTHER SUPPLEMENTAL INFORMATION

City of Hamtramck, Michigan

Other Supplemental Information Combining Balance Sheet Non-Major Governmental Funds June 30, 2013

	Special Revenue Funds										
	Building and Improvement	Special Events	911 Emergency	Library	Community Development Block Grant	Misc Grants	Drug Law Enf. Federal	Drug Law Enf. State	Police Training Grant	Property Revitalization	Non-Major Governmental Funds
Assets											
Cash And Investments	\$ 379,053	\$ 26,783	\$ 269,405	\$ 164,557	\$ -	\$ 96,058	\$ 407,571	\$ 164,222	\$ 3,441	\$ 413,654	\$ 1,924,744
Due from Other Governmental Units	-	-	-	-	52,245	61,430	3,269	-	-	-	116,944
Due from Component Units	10,050	-	-	-	-	-	-	-	-	-	10,050
Due from Other Funds	-	-	-	-	-	-	11,947	-	-	-	11,947
Prepaid Expenses and Other Assets	-	-	-	2,694	-	-	-	-	-	-	2,694
Total Assets	<u>\$ 389,103</u>	<u>\$ 26,783</u>	<u>\$ 269,405</u>	<u>\$ 167,251</u>	<u>\$ 52,245</u>	<u>\$ 157,488</u>	<u>\$ 422,787</u>	<u>\$ 164,222</u>	<u>\$ 3,441</u>	<u>\$ 413,654</u>	<u>\$ 2,066,379</u>
Liabilities And Fund Balances											
Liabilities											
Accounts Payable	\$ -	\$ -	\$ 15,213	\$ 6,203	\$ -	\$ -	\$ 650	631	\$ -	\$ -	\$ 22,697
Due to Other Funds (Note 6)	-	-	-	-	52,245	-	-	-	-	-	52,245
Accrued and Other Liabilities	-	-	-	19,106	-	-	53,695	-	-	-	72,801
Deferred Revenue (Note 4)	-	-	-	-	52,245	218,918	3,269	-	-	-	274,432
Total Liabilities	-	-	15,213	25,309	104,490	218,918	57,614	631	-	-	422,175
Fund Balances - (Deficit)											
Nonspendable - Prepaid	-	-	-	2,694	-	-	-	-	-	-	2,694
Restricted	389,103	26,783	254,192	139,248	-	-	365,173	163,591	3,441	413,654	1,755,185
Unassigned	-	-	-	-	(52,245)	(61,430)	-	-	-	-	(113,675)
Total Fund Balances (Deficit)	<u>389,103</u>	<u>26,783</u>	<u>254,192</u>	<u>141,942</u>	<u>(52,245)</u>	<u>(61,430)</u>	<u>365,173</u>	<u>163,591</u>	<u>3,441</u>	<u>413,654</u>	<u>1,644,204</u>
Total Liabilities And Fund Balances	<u>\$ 389,103</u>	<u>\$ 26,783</u>	<u>\$ 269,405</u>	<u>\$ 167,251</u>	<u>\$ 52,245</u>	<u>\$ 157,488</u>	<u>\$ 422,787</u>	<u>\$ 164,222</u>	<u>\$ 3,441</u>	<u>\$ 413,654</u>	<u>\$ 2,066,379</u>

City of Hamtramck, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures and Changes in Fund Balances Non-Major Governmental Funds Year Ended June 30, 2013

	Special Revenue Funds										Total Non-Major Governmental Funds
	Building and Improvement	Special Events	911 Emergency	Library	Community Development Block Grant	Misc Grants	Drug Law Enf. Federal	Drug Law Enf. State	Police Training Grant	Property Revitalization	
Revenue											
Property Taxes	\$ -	\$ -	\$ -	\$ 330,983	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 330,983
Federal Grants	-	-	-	-	292,081	170,717	314,790	-	-	-	777,588
State-shared Revenue and Grants	-	-	-	120	-	3,726	-	140,760	7,281	-	151,887
Charges for Services	-	-	140,754	-	-	-	-	-	-	-	140,754
Fines and Forfeitures	128,121	-	-	-	-	-	-	-	-	-	128,121
Investment Income	-	-	-	-	-	-	-	-	-	41	41
Other Revenue	-	95,970	4,000	35,987	-	-	550	-	-	-	136,507
Total Revenue	128,121	95,970	144,754	367,090	292,081	174,443	315,340	140,760	7,281	41	1,665,881
Expenditures											
Current:											
General Government	2,748	-	-	-	-	-	-	-	-	3,746	6,494
Public Safety	-	-	113,896	-	-	28,712	474,756	108,316	9,375	-	735,055
Community and Economic Development	-	-	-	-	122,265	121,432	-	-	-	-	243,697
Recreation and Culture	-	88,177	-	542,294	-	-	-	-	-	-	630,471
Debt Service	-	-	-	-	167,829	-	-	-	-	-	167,829
Total Expenditures	2,748	88,177	113,896	542,294	290,094	150,144	474,756	108,316	9,375	3,746	1,783,546
Other Financing Sources/Expenses											
Operating Transfers In	-	-	-	-	-	-	-	131,147	-	-	131,147
Operating Transfers (Out)	-	-	-	-	-	-	(131,147)	-	-	-	(131,147)
Total Other Financing Sources	-	-	-	-	-	-	(131,147)	131,147	-	-	-
Net Change in Fund Balance	125,373	7,793	30,858	(175,204)	1,987	24,299	(290,563)	163,591	(2,094)	(3,705)	(117,665)
Fund Balances - July 1, 2012	263,730	18,990	223,334	317,146	(54,232)	(85,729)	655,736	-	5,535	417,359	1,761,869
Fund Balances - June 30, 2013	\$ 389,103	\$ 26,783	\$ 254,192	\$ 141,942	\$ (52,245)	\$ (61,430)	\$ 365,173	\$ 163,591	\$ 3,441	\$ 413,654	\$ 1,644,204

City of Hamtramck, Michigan

Other Supplemental Information Combining Statement of Net Position Fiduciary Funds June 30, 2013

	Agency Funds			
	Tax Collection	General	Highland Park Tax Collection	Total
Assets - Cash and Cash Equivalents	\$ 394,087	\$ 130,285	\$ 17,597	\$ 541,969
Total Assets	<u>394,087</u>	<u>130,285</u>	<u>17,597</u>	<u>541,969</u>
Liabilities				
Accounts Payable	\$ 2,223	\$ -	\$ -	\$ 2,223
Due to Other Governmental units	202,178	-	7,597	219,775
Due to Other Funds	189,686	-	-	189,686
Accrued and Other Liabilities	-	130,285	-	130,285
Total Liabilities	<u>\$ 394,087</u>	<u>\$ 130,285</u>	<u>\$ 7,597</u>	<u>\$ 541,969</u>

CITY OF HAMTRAMCK, MICHIGAN

Audit Communication Letter

YEAR ENDED JUNE 30, 2013



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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December 26, 2013

Ms. Cathy Square, Emergency Financial Manager
Honorable Mayor and Members of City Council
City of Hamtramck, Michigan

We have recently completed our audit of the financial statements of the City of Hamtramck, Michigan (the City), for the year ended June 30, 2013. In addition to our audit report, we are providing the following required communication and recommendations which impact the City.

	<u>Page</u>
Communications Required under SAS 114 (To Those Charged with Governance)	1
Communications Required under SAS 115 (Internal Control Deficiencies)	4
Other Comments and Recommendations	9

We are grateful for the opportunity to serve the City. Should you have any questions regarding the comments in this report, please do not hesitate to contact us.

Very truly yours,

Alan C. Young and Associates, P.C.



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RESULTS OF AUDIT

Ms. Cathy Square, Emergency Financial Manager
And Honorable Mayor and
The City Council of
City of Hamtramck, Michigan

We have audited the financial statements of City of Hamtramck (the City) for the year ended June 30, 2013, and have issued our report thereon dated December 26, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards. As well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 1, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 1, 2013, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions examined and the areas tested.

Our audit included obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the City.

Results of Audit (Continued)

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. During the year, the City implemented the provisions of GASB 63. GASB 63 provides a new statement of net position format for reporting of the full-accrual, government-wide financial statements. The application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Significant estimates made by the City include the pension and OPEB expenses and related liabilities.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. Notes 2 and 9 are particularly sensitive to financial statement users as they address the going concern issue facing the City.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. We would like to commend management and staff on the assistance provided to us during the audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 26, 2013.

Results of Audit (Continued)

Significant Audit Findings (Continued)

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

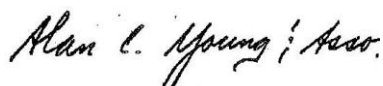
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Emergency Financial Manager, the Mayor, City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.



Detroit, Michigan
December 26, 2013



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Ms. Cathy Square, Emergency Financial Manager
The Honorable Mayor and
Members of City Council
City of Hamtramck, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Hamtramck, Michigan (the City) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies identified as #3, 4, 5, 6, 10 and 11 in Exhibit A in the City's internal control to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies identified as #1, 2, 7, 8 and 9 in Exhibit A to be significant deficiencies.

This communication is intended solely for the information and use of the Emergency Financial Manager and management and the City Council, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Alan C. Young & Assoc.

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1) DEBT AMORTIZATION

During our procedures, we noted the recorded balances for the City's two Section 108 loans were higher than the prescribed balances as per the amortization schedule. The City has been trying to ascertain if additional amounts had been paid but not recorded in the earlier years of the loan.

We recommend the City compare recorded balances to balances per the amortization schedule after each principal payment is made. This is an easy verification method to ensure the propriety of recorded debt balances and to ensure all scheduled payments have been made.

2) FEDERAL REVENUE / SEFA

During our audit procedures, we noted errors in the City's original calculations for Federal revenues and expenditures. Certain Federal grants were not properly shown as federal revenues and the schedule also contained other errors.

We recommend that the City reconcile all Federal grant activity at year-end. All Federal revenues need to be properly classified and reflected for single audit purposes in the Schedule of Expenditures of Federal Awards (SEFA)

3) CAPITALIZATION

During our procedures, we noted a sidewalk expenditure of \$310,000 that was not originally capitalized as part of the governmental capital assets.

We recommend that the City review expenditures to help ensure all applicable expenditures are capitalized in the government-wide statements. This will help ensure the completeness and accuracy of the full accrual statements.

4) PERFORMANCE DEPOSITS

The City, at times, will require contractors to provide a performance deposit to help ensure proper performance. The deposit is refunded at the end of the project if all conditions are met. Although the City has a deposit liability recorded in their ledger, they could not provide a detailed list showing the contractors and amounts related to these deposits.

We recommend the City properly record, document and update, as needed, all performance deposits received. This will help ensure the propriety of the deposit liability account.

5) IMPROPER PAYMENT

During our testing of cash disbursements, we noted an overpayment made to a vendor due to invoices that did not pertain to the City. Although the overpayment was ultimately refunded, the lack of adequate review of invoices prior to payment could have caused an improper payment to have been made.

We recommend the City review all invoices prior to payment for propriety and accuracy. This will help ensure that payments made by the City are for actual incurred goods or services

6) VENDOR SELECTION

During our procedures, we noted instances where payments were made to a contractor, although no documentation was provided to show that City Council had approved/selected this vendor. Although documentation was provided to show that the services were provided, the selection of the vendor was not documented.

We recommend that the selection process for all City vendors be properly documented. This will help ensure the City receives the best services and the best prices for their purchases.

7) TIMELY BANK DEPOSITS

During our procedures, we noted instances where deposits were not made on a timely basis. More than three days elapsed between receipt of funds and deposit.

We recommend that the City deposit all cash receipts on a timely basis. Leaving cash undeposited weakens the internal control structure and increases the risk of theft or misuse of funds.

8) PAYROLL APPROVAL

During our testing of payroll, we noted for one pay period, the payroll check approval report was not signed by the City Manager, so there was no evidence that this report had been reviewed and approved. Review and approval of the payroll check approval report is a part of the City's prescribed procedures relating to payroll, and the absence of such review and approval weakens the internal control structure.

We recommend the City follow their policies and procedures and have a designated individual review, approve and sign all payroll check approval reports for each pay period.

9) PAYROLL METHODOLOGY

During our testing of payroll, we noted that the Fire Department employees are not paid for actual hours worked, but are paid for “average weekly hours” of 50.4 hours. Although this methodology may be appropriate, we were not provided with any contract, agreement, resolution, etc. to document this methodology. In a similar situation, we noted a court employee received a 3% raise, but no documentation was available to support this raise, which we were told was approved by the Judge.

We recommend that all pay rates be fully documented through contract, agreement or resolution and be documented and retained in the employee personnel file. This will help ensure the City is paying the pay rates and hours that they intended.

10) ACCOUNTS PAYABLE

During our procedures, we noted approximately \$88,000 in unrecorded liabilities based upon our subsequent disbursement test work. Although the City’s records were ultimately adjusted to reflect the additional liability, it had not been previously identified.

We recommend the City put increased emphasis on year-end cut-off procedures. It is important to record all year-end receivables and accrued liabilities in order to have an accurate picture of financial position at year end.

11) COMPONENT UNIT

During our procedures, we became aware of the fact that the City incorporated an entity in 2007 known as the Economic Development Corporation of the City of Hamtramck (EDC). This entity meets the definition of a component unit and should have been reflected as such in the City’s annual audit report from the inception of the EDC to the present. However, no accounting records were maintained for the EDC, so it has never been recorded. Based on observation of EDC’s bank statements for fiscal 2013, there was negligible activity flowing through the bank account for 2013 and a bank balance of approximately \$5,000.

We recommend that the City maintain complete and accurate accounting records for all departments and organizations they are accountable for. The absence of accounting records and documentation for the EDC indicates a lack of checks and balances and oversight for this component unit since its inception.

OTHER COMMENTS AND RECOMMENDATIONS

1) CAPITAL ASSETS INVENTORY

During our audit procedures, we noted that the City did not perform an inventory of their capital assets. Without such an inventory the reliability and accuracy of the City's recorded capital assets becomes less certain.

We recommend that the City perform an inventory of its capital assets on a periodic basis. This will help ensure the existence, accuracy and completeness of the City's recorded capital assets.

2) OUTSTANDING CHECKS

During our analysis of bank reconciliations, we noted some of the City's bank accounts included outstanding check that had been outstanding for over a year.

We recommend that the City review outstanding checks on a periodic basis. All outstanding checks over a specified period of time should be voided and re-issued, or escheated to the state, depending on the circumstances.

3) REVENUE AND EXPENSE CLASSIFICATION

During our procedures, we noted instances of improper postings to miscellaneous revenue. One instance was for a refund of an overpayment for legal fees that should have been credited to legal expenses. The second instance was for a \$21,897 payment from the State that could not be identified, so was classified as miscellaneous revenue. We also noted a payment for legal expense incorrectly classified as debt service, and a misclassification between water revenue and sanitation revenue.

We recommend the City strive to properly classify all transactions. Proper classification of revenue and expenses is important to the City in its efforts to closely monitor actual results vs. budgeted amounts.

4) AUDIT SCHEDULES

During our audit fieldwork, there were several audit areas for which the schedule/support provided by the City was incomplete, inaccurate or did not agree to the general ledger. These areas included accounts payable, income tax receivable and grant revenue/receivables. Although all differences were materially resolved, these issues did impact the efficiency of the audit.

We recommend that the City review all audit schedules for completeness and accuracy. This will help ensure the efficiency of the audit process.

5) PROPERTY TAX DISTRIBUTIONS

During our procedures, we noted that property taxes collected by the City were not being distributed to other governmental entities on a timely basis. Lack of timely distribution of property tax collections is a violation of state law.

We recommend that all property tax collection relating to other governmental entities be distributed on a timely basis. The City has a fiduciary responsibility with regard to these funds and they need to be distributed appropriately.

6) DEFICIT BUDGET

For the year ended June 30, 2013, the City's final amended budget included a deficit for the general fund for the current year, adding to the existing deficit from June 30, 2012. Deficit budgeting is in violation of State law, and is also a dangerous practice given the City's financial situation.

We recommend that all budgets be fully contemplated with the ultimate goal being to remove the general fund deficit as well as to develop long-term fiscal stability.

7) APPROVAL OF CASH DISBURSEMENTS

During our testing of cash disbursements, we noted in one of our forty sample selections there was no documented approval on the purchase order or invoice. Approval of all payments is an important component of the City's internal controls over cash disbursements and should always be properly documented.

We recommend that the City follow their policies and procedures regarding cash disbursements. All purchase orders and invoices should document approval of the purchase by an appropriate individual.

8) CASH DEPOSITS

During our procedures and observations, we noted a lack of security in relation to the City's bank deposit process. By not exercising due caution while depositing City funds, there is an increased risk of theft or misuse of funds.

We recommend the City improve the security of their bank deposits. All cash and checks should be secure while in transit from City Hall to the bank.

9) JOURNAL ENTRIES

During our procedures, we noted that supporting documents are not kept with the corresponding journal entry worksheet. Although all documentation was ultimately available and provided to support the journal entries, it would be more efficient to attach the support to the journal entry worksheet.

We recommend that supporting documentation be attached to all journal entries. This will help improve the efficiency of the process and make the documentation more readily available for audit or internal purposes.

10) BONDING

During our procedures, we became aware of the fact the City's former treasurer was not bonded as is required under the City's charter.

We recommend the City ensure that all applicable employees be bonded to comply with the City charter as well as to cover the City in the event of financial loss caused by an employee.

11) JOB DESCRIPTIONS

During our procedures, we noted the City is not maintaining job descriptions for the various positions within the City.

We recommend that the City develop specific job description for all positions within the employment structure. The job description should describe requirements, responsibilities and expectations for all positions. This can potentially help improve the efficiency of the workforce and will help clarify individual responsibilities.

12) EMPLOYEE HANDBOOK

The City does not currently maintain or utilize an employee handbook, documenting the City's policies and procedures.

We recommend the City consider developing such a handbook. This handbook would clearly document in one concise location the City's policies and procedures. This will help ensure understanding of expectations of the employees and help ensure a consistent application of policies.

13) NON PAYMENT OF PENSION OBLIGATION

For the year ended June 30, 2013, the City was only able to pay approximately \$800,000 of their required pension contribution, leaving \$2.3 million unpaid. The pension obligation is required to be funded under State law.

We recommend the City strive to make all required payments on a current basis. Although this is not an easy task, it is crucial in order for the city to maintain its fiscal viability.